

Company Name: Medis Technologies
 Company Ticker: MDTL US
 Date: 2007-05-09
 Event Description: Q1 2007 Earnings Call

Market Cap: 520.40
 Current PX: 14.89
 YTD Change(\$): -2.50
 YTD Change(%): -14.376

Bloomberg Estimates - EPS
 Current Quarter: -0.140
 Current Year: -1.150
 Bloomberg Estimates - Sales
 Current Quarter: 3.133
 Current Year: 49.025

<Q - Gary Giblen>: The operational – once the line's operational, you have the qualification, optimization, and re-listing and UL process. So, I mean, what's a rough sense of the timeframe for those processes to take place?

<A - Robert Lifton>: I think that it's probably starting in 2 to 3 months, we'll be starting to rev up in ever larger amounts.

<Q - Gary Giblen>: Okay. And is the packaging line – I mean, was that always a separate process?

<A - Robert Lifton>: That's a separate process, and that will certainly be ready by the time we're ready for packaging and shipping.

<Q - Gary Giblen>: Okay.

<A - Robert Lifton>: As you know, Gary, probably better than anybody, we've been creating additional lines in addition to the fully automated line like the fuel line, like the packaging line, like some other lines that go with the electrode framing and the like, which – all of which are capable not only of handling 1 automated line, but of handling as many as 2 or 3 automated lines. And so, we've made a significant investment in the future in some of these capabilities. The packaging line is one of those, the fuel line is one of those.

<Q - Gary Giblen>: Okay. But what's the timeframe for starting work on the second fully automated line?

<A - Robert Lifton>: We have been pulling together all of the numbers of – Gennadi Finkelshtain and his team have been going around and meeting with our various suppliers, and that's not just Ismeca and not just Celestica, but it's the people who supply for example some of the other products that we need and pulling it all together. The Board meeting we held yesterday was too early for him to present to us all of those numbers in one place, but I'm expecting that at the next Board meeting by the next quarter, we will be able to have a presentation to the Board of all of those numbers. And if it warrants it, we can always call an earlier meeting and take a hard look at what the whole package is. We really want him to be in a position to negotiate furiously with each of these people. And so far, it looks like that program is working and that – the numbers are coming, in many cases, at prices that are better than we would have expected.

<Q - Gary Giblen>: Okay, great. A couple more. The – can you hazard a rough just order of magnitude of how many units you would expect to be produced in '07 off the...

<A - Robert Lifton>: I don't want to give a specific number. I would say it would be well over a million, but I can't – I don't want to say a number because I don't know myself honestly how fast all of these – optimization and all the rest that you outlined will take place. I have to tell all of our shareholders that this is the first time anybody's ever done this. And it's always uncomfortable for me not to be in a position to be able to answer these questions with certitude. But since no one ever did it before, including ourselves, we just don't know all the answers until we do it.

<Q - Gary Giblen>: Sure. Understood. Okay. And then, last one is just simple – should be simple. I'm trying to understand how net interest expense arose for the quarter because there were other capital expenditures driving that or – I mean...

<A - Robert Lifton>: Well, net interest expense, as I understand it, is how they treat the expense.

<A>: It was paid on a preferred.

<A - Robert Lifton>: Yes, it's – the dividend paid on the preferred is called interest.

<Q - Gary Giblen>: Okay. Light bulb went on. Okay. Thanks, Bob.

<A - Robert Lifton>: Thank you, Gary. And again, good luck.

<Q - Gary Giblen>: Thank you.

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Our next question comes from the line of Foster Green with Coburn and Meredith.

<A - Robert Lifton>: Hi, Foster.

<Q - Foster Green>: Hi, Bob. Just a couple of couple of questions. Can you comment on the status of General Dynamics and also what's going on with Russia, and also the many trips you guys made to China?

<A - Robert Lifton>: Yes. First of all, let me say that my feedback at this point in time is that the customers – the military customers have the product and are experiencing it, and I'm waiting for – I don't want to say yet until we get an official response, but my gut tells me it's going well. With respect to Russia, we have been working with the Russian group. They have submitted an order to us to start their program where our position with respect to countries like this is that we don't want to take any credit risk at all. We want the orders to be accompanied by either LCs or cash, and we're waiting to get that. With respect to China, I am leaving tomorrow for a trip to San Francisco, which contemplates a meeting with – in San Francisco with a very important, highly respected Chinese company with whom we are having serious discussions, although I cannot say what the outcome will be.

<Q - Foster Green>: Thank you, Bob.

Operator

The next question is from the line of Quincy Lee with Sutton Capital. Please go ahead with your question.

<Q>: I have a question regarding the Microsoft press release earlier this month – or last month. How much – what was the – what will the FDA revenue from that sales of Microsoft be? I mean, is it material or what that just – was there any materiality behind that press release?

<A - Robert Lifton>: Let me, I'm glad that you asked that question. First of all, let me say this. We have been instructed by the companies with whom we are dealing unequivocally not to present the number of units that they buy and not to present the amounts of dollars that they pay per unit. That's a basic rule that we are living by, and although it ties our hands to some extent and makes information not as desirable as people would like, that's what they've us to do and that's the rule we'll be living by. Now, Microsoft has commented on that and validated the statement that was made in the press release by saying that it was a small order, which they intend – which has their brand on it, which they intend to give out to people who are – that they want to have this – experience this product. So, I would say, that speaks for itself.

<Q>: Okay. So, they are [inaudible]. Thank you.

Operator

The next question is from the line of Mark Miller with – an independent investor. Please go ahead, sir.

<A - Robert Lifton>: Hey, Mark.

<Q>: Hi, Bob. I'll throw three questions at you just now, and then get back in the queue, later if possible. Cell Kinetics, do you have an idea what's the initial capitalization you're targeting for this when and if they get spun off, and how close might we be to that?

<A - Robert Lifton>: I can't answer the first questions. I will answer the last question and say that in the last – in our last report, we said we would be looking to accomplish that, have our shareholders be aware of the program by the end of this quarter.

<Q>: Okay. And then, next question, regarding Power Pack on airplanes. And it's my understanding you replied to a question from MyTreo on this that you implied that the rulemaking for 49 CFR-175.10, sounds like that's moot. Could you comment on that a little bit?

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<A - Robert Lifton>: Let me comment on the whole subject, and let me say, this is a subject that keeps coming up. And one would think that every single person who has a cell phone only uses it on an airplane, when in truth you can't use it at all on an airplane. So, I think the starting point, I want to say, which I've said again and again, which is that for most of our customer base this is not a significant issue. And interestingly, and the customers that we're dealing with, I won't say it has never come up, but it barely comes up at all. That's not a major issue with them. Now, having said that, let me add 2 points. 1 is that our Power Pack is not hazardous. It contains no materials that are damaging in an airplane context, and there is absolutely no legal or moral or any reason that it should not be able to be brought on an airplane. Secondly, we have completed the UL testing, as you know, and that underscores the point that I'm making about the status of the Power Pack and its safety and the like. And so, we are using that material to present to appropriate authorities to be able to explain to them that there is no reason why the Power Pack can be in any way damaging to an airplane. Now, having said all that, I will add this. Our people, and people, and including the persons from – who did the review on MyTreeo.net and elsewhere, have literally carried hundreds and hundreds of Power Packs onto airplanes and have never been stopped.

<Q>: Okay, I'm not surprised. The one thing I would ask is, the letter you sent to the Pipeline and Hazardous Material Safety Administration on the 23rd of August last year, and the response 3 days later, is that still in process? I mean...

<A - Robert Lifton>: That's a different group than we're talking to, frankly, because here we're talking in the United States...

<Q>: Right.

<A - Robert Lifton>: And that is a U.N. group that meets on irregular periods of time, and that letter preceded the UL. So, far as we're concerned, it's moot.

<Q>: Okay. All right. And then, a question about your expenses and like, R&D costs, they're up 2 million, 50%, year-over-year. Do you think that is stabilized going forward, or do you see an increase – more increase as you hit the market?

<A - Robert Lifton>: Mark, that's an excellent question. I think we're going to see some volatility in those costs as we go through the initial process of setting up for our automated line and getting all the people in line to do that, and then I think it will stabilize once we're actually running a line.

<Q>: So, you think it'll stabilize around the level it's at now?

<A - Robert Lifton>: I believe it will, and my own expectation is that the overhead levels will run somewhere, on a stabilized basis, at those ranges.

<Q>: Okay. Both R&D and selling and marketing and G&A, you would give that same answer?

<A - Robert Lifton>: I'd give the same answer, yes.

<Q>: Okay. And then...

<A - Robert Lifton>: I want to make clear that in the next couple of quarters there may be volatility in that because we're allocating to those categories things that have to do with setting up lines, with getting things in place, that once they're in place you don't repeat them.

<Q>: Okay. When you say volatility, then you're saying it may jump up.

<A - Robert Lifton>: It could be up or it could be down a little bit.

<Q>: Okay. And then lastly, regarding...

<A - Robert Lifton>: However, I want to make clear that the nature of the volatility – we're not talking about huge amounts of money here. As you...

<Q>: No, I understand that. I'm just trying to understand – I'm just trying to work on it.

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<A - Robert Lifton>: That's fine. No, I just want to make that clear.

<Q>: Right. And then, power management system, what's your reseller price? Can you share that with us? And what kind of gross margin?

<A - Robert Lifton>: We're – right now, our approach on the power management system is that we're not looking to make a profit on it. So, it's a product which we don't expect the buyers to – I mean, once a buyer buys one, we expect them to use that one continuously, and of course to repeatedly buy Power Packs. So, we want to encourage that process of continuously buying Power Packs, and buying one-time power management. So, at this point in time, the power management systems are – I don't want to put a price on it because I don't know what our people have quoted to different companies that it might...

<Q>: I understand.

<A - Robert Lifton>: But we're not looking to make – it's not a profit area for us, no. We are – and let me use this opportunity, because I have so many of you on the line, to say that by the end of this month we expect to introduce a super power management system, which we'll be providing more details on. And it will, I think, add to the present power management system another whole dimension as well. And I'm very excited about that.

<Q>: Any more idea what that's all about?

<A - Robert Lifton>: No. Wait and hold your breath.

<Q>: Okay. All right, I'll get back in the queue. If there's time, I might have some more.

<A - Robert Lifton>: Okay. Thank you, Mark.

Operator

Our next question comes from the line of Tom Leach with Preakness Hills Capital.

<Q - Thomas Leach>: Yes. Good morning, gentlemen. A couple of questions on working capital and stuff like that. Can you estimate how many dollars of working capital you're going to need per Power Pack, and the cash cycle we're going to see on that?

<A - Robert Lifton>: No. We have now, as you saw on the statement, we have approximately \$69 million of working capital – I'm sorry, \$64 million of working capital. And we – I think it'll carry us through the system as we're moving forward. If we need working capital, it will be because we have receivables or inventory, and in that case we would be looking for our banks to provide bank lines for that kind of thing or some bridging or financing. We don't think it will affect any dilution to shareholders.

<Q - Thomas Leach>: No, my question is very specific here, Bob. How many dollars of inventory are you going to need per Power Pack?

<A - Robert Lifton>: We don't know yet.

<Q - Thomas Leach>: How many dollars of accounts receivable will you need per Power Pack?

<A - Robert Lifton>: I don't know.

<Q - Thomas Leach>: Okay. What do we expect on the gross margin on the semi-automated line? Your announcement with the Treo folks, they said, it was coming off the semi-automatic line and I assume...

<A - Robert Lifton>: We're not giving out that information.

<Q - Thomas Leach>: Okay. What's your gross margin on the automated line expected to be?

final

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<A - Robert Lifton>: Our ultimate gross margin on the automated line, when we're running at 1.5 million units per month fully operational, is about \$4.

<Q - Thomas Leach>: \$4 on how many – on what sales, what percentage do you rate them after?

<A - Robert Lifton>: When the line is running fully operational at 1.5 million units per month.

<Q - Thomas Leach>: \$4.00 per unit.

<A - Robert Lifton>: Yes.

<Q - Thomas Leach>: And what is your selling price fee? I'm trying to get to the percentage gross margin.

<A - Robert Lifton>: In that case, our selling price is \$9.00.

<Q - Thomas Leach>: So, you're saying 4 on 9?

<A - Robert Lifton>: Yes.

<Q - Thomas Leach>: That's a lot different from the last call, Bob.

<A - Robert Lifton>: That's not true.

<Q - Thomas Leach>: You said it was 3 on 12. I have 33% in my head of what it was gross...

<A - Robert Lifton>: Oh, so then I think you'll have to readjust your head.

<Q - Thomas Leach>: Okay, well that was what you had told us last time around. Then, on the Power Pack itself, I have a couple questions for...

<A - Robert Lifton>: Oh, you're talking about the – well okay, when you thinking 12, you're talking about with the power management. I'm talking about the Power Pack alone.

<Q - Thomas Leach>: Okay. And a couple of questions on the Power Pack itself. On the last call, I had asked for a datasheet or a spec sheet, and you said you were going to put it on the website, and I didn't see anything. I have a couple of specific questions from somebody who does some work for me. If you could, somebody technical can answer them there. I need to know the open circuit...

<A - Robert Lifton>: Well, you know what I'll have to do? Unfortunately, the technical people are not on the phone and are actually moving on the same meeting that Jacob Weiss is. So, I would like...

<Q - Thomas Leach>: Are you going to put a datasheet on the Web?

<A - Robert Lifton>: I would like to defer that, but if you would do me a favor, I would appreciate it very much if you would send me your questions, and I will not only try to answer you directly, but try to answer it through the Web.

<Q - Thomas Leach>: Will there be a datasheet on the Web, Bob?

<A - Robert Lifton>: I don't know. Our customers have datasheets. Our customers have all the things they need.

<Q - Thomas Leach>: Okay, thank you.

<A - Robert Lifton>: Thank you.

Operator

Our next question comes from the line of Mark Driscoll, a private investor.

<Q>: Hi, Bob.

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<A - Robert Lifton>: Yes, sir.

<Q>: I know you are in the midst of launching your first product, but I was hoping you could give us a little status on your research efforts in trying to increase the energy densities of the product, and sort of how you see that playing out with the form factor of future generations of Power Pack.

<A - Robert Lifton>: Well, I think it's important, and you've opened an important level of discussion, so let me talk about it on a step basis. First of all, the Power Pack that we now have, with the power management that we now have finally getting from our power management supplier of chips – the appropriate chips, and the product that we'll be talking about by the end of this month, I think are just dynamite products. I think that they put everything else in the market in second place and that nothing can compare to them in terms of satisfying the customers' need for power that runs continuously, that handles all the different kinds of devices. We are, of course – and I have said publicly that we are developing a power approach for a laptop product based on the devices that we dealt with for general dynamics, and that's been put out into the marketplace, and we are having discussions with certain companies about their interest in joining with us in developing that product for the laptop market. We've also indicated a power approach for a product that would be a 1 to 2-kilowatt product that would be a standby product for the home or office when they're off-grid. The product for the laptop, the product for the home and office, and one other product, which I will mention right now, which I think can have increasing significance, and that is the product – the 800-watt product which we're making for General Dynamics for UAV use, all have cartridges as opposed to the Power Pack which – where the cartridge in effect is inside the Power Pack. So, those are cartridge products that we will be – that we have the opportunity to develop. In the case of General Dynamics, as you know, they gave us \$400,000 as a first stage of development, and now we are presenting – have already presented or are presenting to them what the product will look like, and they have to make a decision whether to continue that development program with us by putting up more money. And in the case of the laptop, as I said, we're dealing with companies that are showing a real interest in joining with us on it, and that's true, but to a lesser extent so far on the larger-scale power system for home and office.

<Q>: And Bob, one other item. You mentioned – I know last year there was an announcement that you had a – I think a joint venture with a company that sort of specializes in gels. Has there been any progress on that front?

<A - Robert Lifton>: Very much so. Boy, you're terrific. You've got a great memory. The product that we're making for General Dynamics for the UAVs is a joint product with that company, Oy Hydrocell.

<A - Robert Lifton>: Bob, I think it's called Israel Aircraft Industries.

<A - Robert Lifton>: Did I say General Dynamics? I'm sorry. Israel Aircraft Industries. Thank you, Israel. For the UAVs, it's a joint product with that company. So, we are very much working with them. Next question? Hello?

Operator

Your next question comes from the line of Jesse Herrick with Merriman.

<Q - Jesse Herrick>: Hey. How's it going, guys?

<A - Robert Lifton>: Jesse, hi.

<Q - Jesse Herrick>: Just had a quick question on the – I know you're not talking about specific volumes to Microsoft, but the press release did say the first shipment of Microsoft.

<A - Robert Lifton>: Yes.

<Q - Jesse Herrick>: I was just wondering...

<A - Robert Lifton>: Our first shipment, yes.

<Q - Jesse Herrick>: What – I know you're not talking to specific units, but are there multiple – is this going to be in multiple shipments to come to whatever total you are shipping, and is that going to be spread over several quarters or is

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